

OUTSOURCING INNOVATIONS SUPPORT ARMY TRANSFORMATION

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Introduction

The single most dominant characteristic of Army transformation is change—both for the Army's forces and the installations that support them. One area of installation support that is undergoing rapid change is the sourcing of goods and services. The Army has a long history of relying on the private sector for some critical goods and services to supplement the support provided by its in-house workforce. For instance, it hired private companies to feed its cavalry horses during the Revolutionary War.

Although the Army has contracted out goods and services for many years, the Army transformation requires efficiency improvements and performance enhancements that exceed the limit of the old approach to simple contracting. In particular, the transformation will require rapid response and flexibility as Army forces adapt to change. Today, innovative concepts for outsourcing are available to meet this challenge and many are already being tried by the military. If adopted, these innovations can produce changes that will revolutionize the outsourcing process and allow the Army to go beyond conventional contracting.

This article presents a summary of outsourcing innovations that could support Army transformation, including sections on strategic sourcing, partnering, regional contracts, and performance-based contracts.

Strategic Sourcing

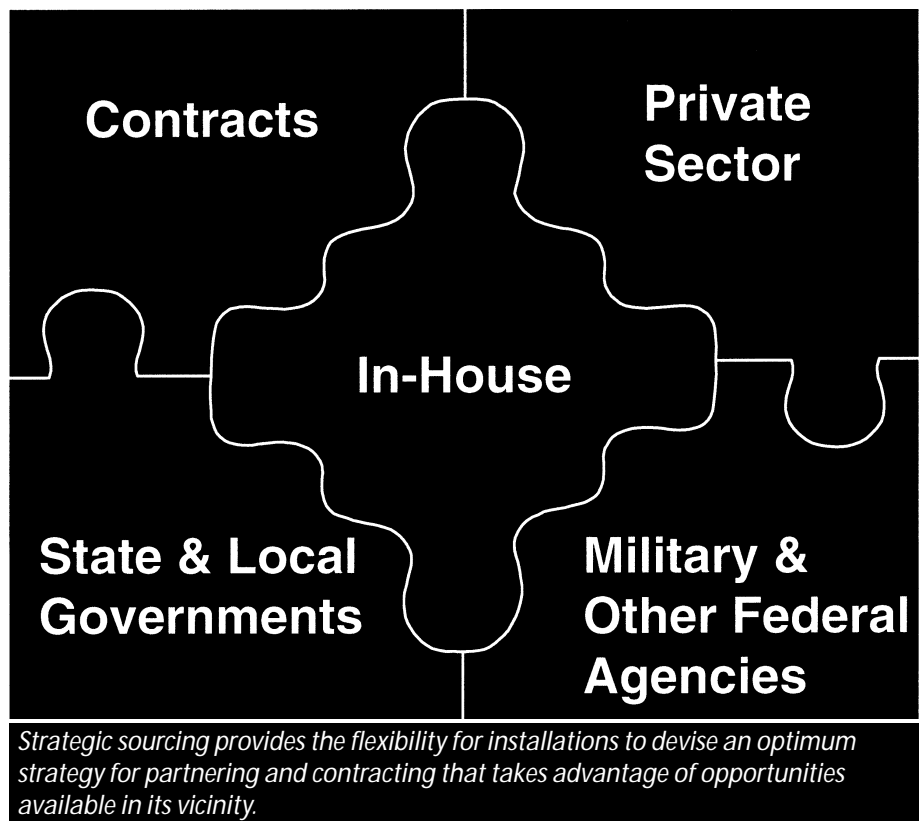
The most powerful innovation in outsourcing is the DOD Strategic Sourcing Program. Started in FY00, this program is based on an innovation from the private sector, which has become a dominant part of the business strategy of highly successful new companies like Cisco Systems. It is also a vital part of the new business model being adopted by established companies like Ford Motor Co.

DOD created its version of the program to provide the Services more flexibility in achieving installation support goals. After engaging for many years in commercial activity studies under Office of Management and Budget Circular A-76, DOD established the more flexible and broader Strategic Sourcing Program in which the Services can voluntarily participate. In the new program, the A-76 study is just one tool in the strategic sourcing toolbox.

A key principle in this innovation is the opportunity to devise a sourcing strategy that fits the unique environment of a particular installation. The accompanying figure illustrates the idea of an installation devising an optimum sourcing strategy using the partnering and contracting options available to it. Because the sourcing opportunities available to an installation can vary dra-

matically from one site to another and with time, this flexibility is essential. Of course, Army transformation imposes another requirement for flexible sourcing because it is a critical driver of change for installation support.

The most important element of this program is that it enables installations to undertake a business and process reinvention initiative. The program includes business process reviews, which installations can use to eliminate, improve, and streamline processes. Such reviews are vital in helping installations shift from the traditional focus on functional elements ("stovepipes") to business processes that deliver support to the warfighter. The program also enables installations to achieve goals through re-engineering, restructuring, consolidating, adopting best business practices, applying activity-based



costing and management, and eliminating obsolete functions or practices.

The concepts for this program were pilot-tested at the Crane Naval Surface Weapons Center in Crane, IN. The results showed that the business and process reinvention effort could achieve more savings than typical A-76 studies and also improve execution. For example, one organization was able to cut response time to customer requests for critical parts from 7 days to 1 day.

In addition, the test results indicate that the overall strategic sourcing approach has the potential to achieve savings without the negative impact on morale and the turmoil of transition that have been shown in past A-76 studies. Thus, the strategic sourcing approach is much more people-friendly and allows installations to carefully manage key institutional knowledge assets that are vital to support the military.

Partnering

Many strategic sourcing innovations are more appropriately described as partnering rather than traditional contracting. To understand this, remember that the conventional concept of contracting calls on the government to maintain an arms-length relationship with the contractor and provides funds in exchange for services. But in innovations such as the residential communities initiative, the contractor provides capital investment funds and the Army supplies land and family housing units in a long-term (up to 50 years) relationship that is best described as a partnership. Indeed, the Army is expected to accomplish much of its installation support projects in the future through the widespread use of project teams.

A very powerful innovation with extraordinary potential is the enhanced-use leasing initiative that was enacted into law in 2001. This method provides much greater flexibility and incentives for installations to enter into partnerships with a variety of potential partners. The power lies in its potential to resolve the current Army dilemma of excess infrastructure. DOD currently estimates that it has between 20 and 25 percent more infrastructure than is needed for the force, but no base closures are possible before 2005. The enhanced-use leasing initiative empowers installations to enter into agree-

ments with partners who use the excess capacity and frees up funds for Army transformation. Moreover, this approach provides the following important advantages over divestiture:

- Much greater flexibility because the decisions are reversible and installations can respond quickly as more is learned about the Objective Force and its requirements.
- Vastly improved result for cash flow. This is important because cash flow has been the Army's biggest problem related to excess capacity.
- A better transition path to potential divestiture in the future because of the greatly reduced economic shock potential to local communities.

Regional Contracts

In addition to partnering opportunities, there are potential contracting innovations that take advantage of the large size of the installation support business. The single biggest advantage that the government has in contracting activities is the use of "economies of scale" to achieve efficiencies. The key concept here is to combine activities from many installations into a single individual contract that will provide services at a lower price and better performance. Regional contracts are already available from several agencies for use by Army installations and some are already being used for a few Army functions such as energy savings performance contracts. It is a natural step to transition to the regional contracts as the Army transitions to Transformation of Installation Management regional centers.

Indeed, the Army has already agreed on establishing the Army Contracting Agency, a field-operating agency that will consolidate and provide oversight for Army contracting activities. Although the final concept is still under development, it is currently envisioned to have two regions in CONUS and will control regional installations, contingency contracting, and standardization and oversight for specialty contracting offices. The two regions will concentrate on their areas' contracts, and installations will still have a contracting office with a size determined by its unique requirements.

Performance-Based Contracting

Performance-based contracting is another innovation already being tried by the military. DOD estimates that 20 percent of all its service contracts are performance-based and is focusing on achieving President Bush's goal of 50 percent by the year 2005. The key concept behind the performance-based contract is that it specifies the agency's performance objective, but does not prescribe how the contractor is to achieve it. By setting measurable outcomes and comparing the contractor's performance to the standards, this approach was found to increase contractor accountability and produce higher quality service. Giving contractors leeway in achieving the objective will be especially important as Army installations are impacted by transformation.

Conclusion

The Army faces an extraordinary challenge in making the changes necessary for transformation. The only thing certain about the future is change and that we will not have a single, fixed end state on which to base our plans for the future. It is imperative that we have the flexibility and responsiveness to adapt to change. The business process innovations described in this article can provide these critical attributes in addition to the efficiencies and performance enhancements needed by Army installations to support transformation.

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